

CONTACT

For more information, contact

Henry Cobbe, CFA
Head of Research
henry@elstonconsulting.co.uk

Emma Cole
Associate
emma@elstonconsulting.co.uk

Scope

Elston ETF Research focuses on ETFs listed on the London Stock Exchange. All tickers relate to London listed securities. Our target audience is UK asset managers and intermediaries.

About Elston

Elston aims to be the UK's leading independent ETF specialist. We provide ETF Research, ETF Portfolios and Indices to asset owners and asset managers.
www.ElstonETF.com

This report is based on a survey carried out in December 2018 and is sponsored by State Street Global Advisors Limited. Please refer to Notices at the end of this report.

BOND ETF INVESTING SURVEY RESULTS

Summary

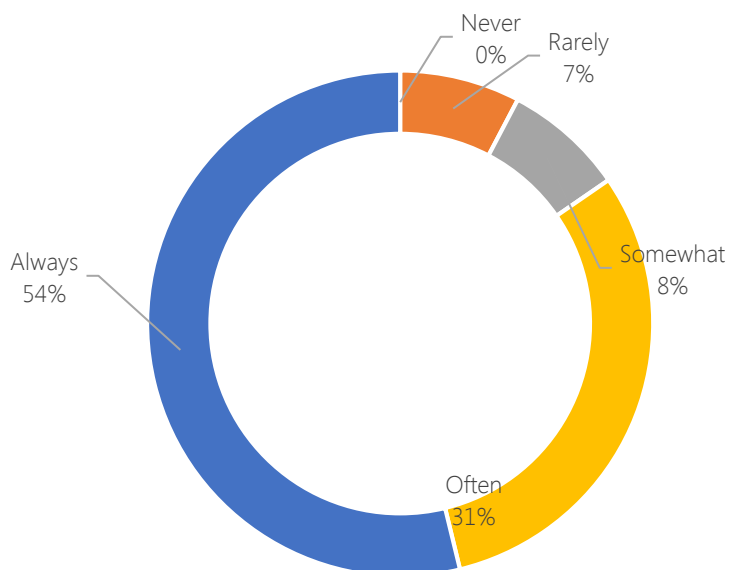
In December we conducted a Survey of senior portfolio managers and decision makers from firms whose combined assets under management is in excess of £500bn. The survey was designed to get a better understanding on how those managers approach bond investing.

Our key findings based on the survey are summarised below:

- Inclusion of bonds within portfolio for implementation of **strategic and tactical** views is a given
- Managers actively consider **issuer type, term and credit quality** when allocating to bonds but may be less aware of the range of more nuanced bond exposures now available to reflect these different dimensions
- Managers seem to favour **direct bond exposure** at present over active funds or index funds/ETFs.
- Adoption of bond ETFs is not therefore linked to the classic active/passive debate, but is more utilitarian in nature.
- Whilst there is reasonable **awareness of bond ETFs**, we believe there is scope for increasing education around advantages of using bond ETFs over direct securities for diversification and accessibility purposes
- **Diversification and targeted exposures** were cited as the key benefits, whilst **index construction** (overweight largest issuers) and **liquidity** were cited a key concern.
- These concerns show there is a lack of awareness around 1) how bond indices are actually constructed (the largest issuers within an index are not necessarily the most indebted firms), and 2) that whilst bond ETF liquidity is only as good as its underlying assets, the ability to trade bond ETFs on exchange means there is a secondary market which does not exist for traditional active or index funds.

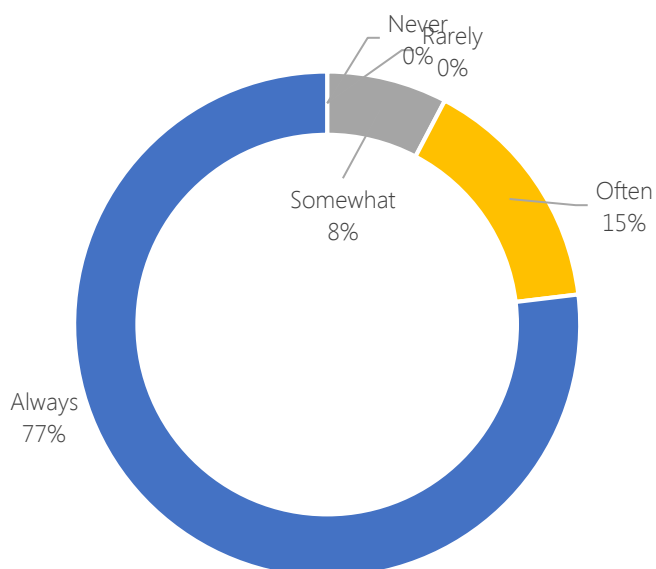
Q1. To what extent do you consider interest rates and bonds when evaluating economic outlook?

Our view: discussion of the economy and monetary policy is directly link to interest rates. We are not surprised by this result.



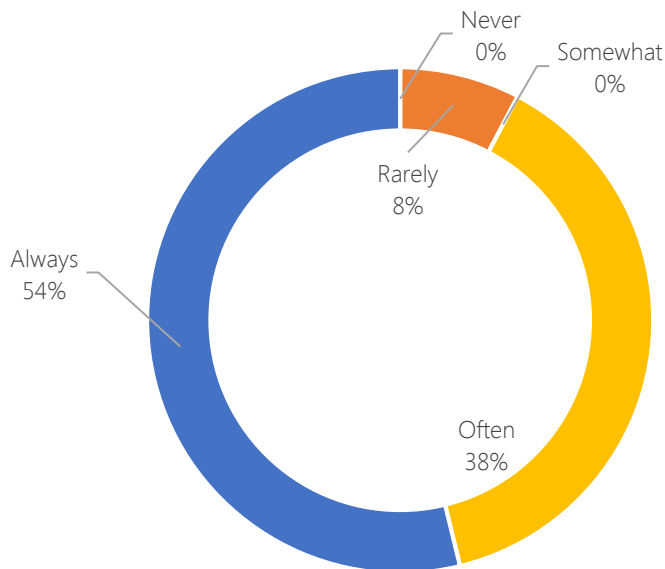
Q2. To what extent do bonds have a role when creating a strategic asset allocation?

Our view: bonds are core components of any multi-asset strategy.



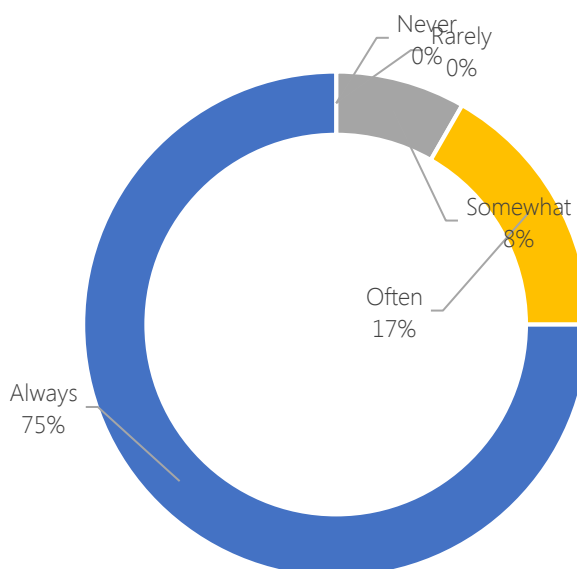
Q3. To what extent do bonds have a role when making tactical asset allocation decisions?

Our view: unsurprisingly, most investors consider that bonds always or often have a role when making tactical asset allocation decisions.



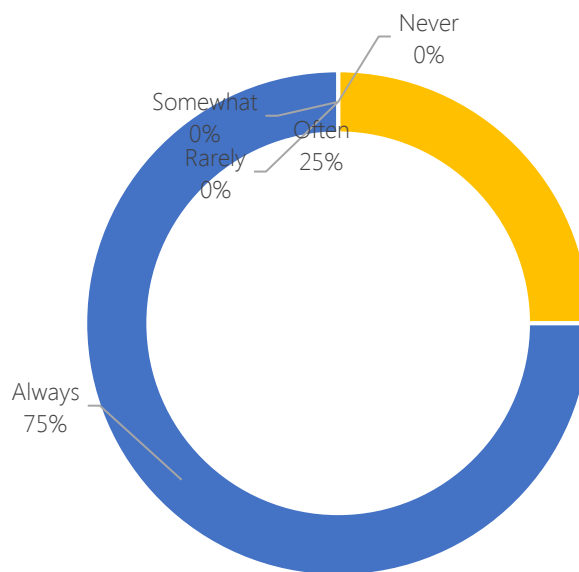
Q4. To what extent is issuer type (corporate, government, aggregate) a consideration when accessing bond exposure?

Our view: this is consistent with our expectations.



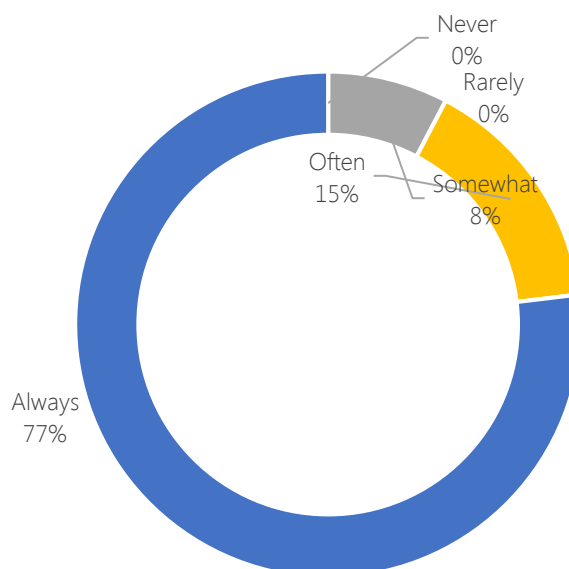
Q5. To what extent is term (short-dated, medium-dated, long-dated) a consideration when accessing bond exposure?

Our view: strategists look a term structure of interest rates (yield curve) as economic indicator and position bond exposure accordingly. However until recently there were limited options of implementing such term-specific views.



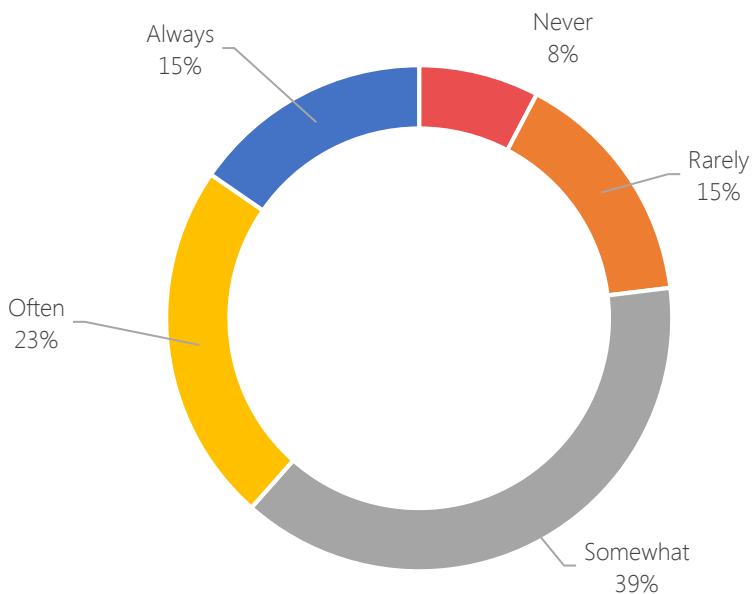
Q6. To what extent is credit quality (investment grade, high yield) a consideration when accessing bond exposure?

Our view: credit quality is a key consideration.



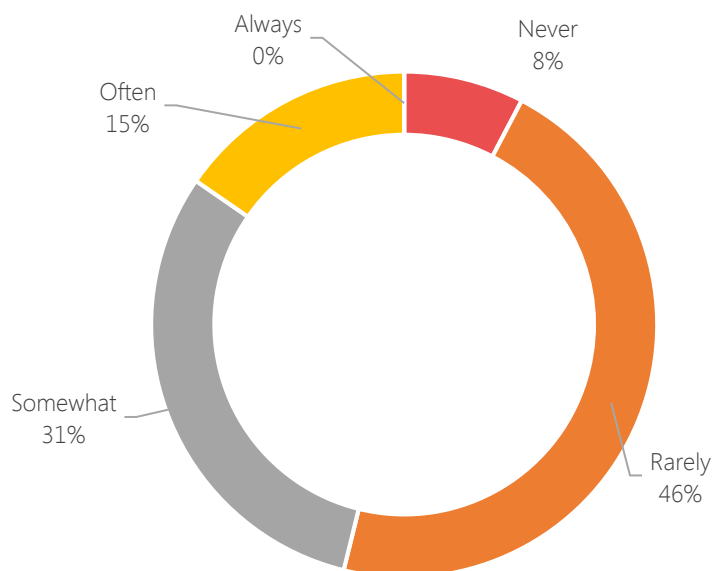
Q7. To what extent do you look at bonds from a UK only perspective?

Our view: This is consistent for a group of London-based investment managers.



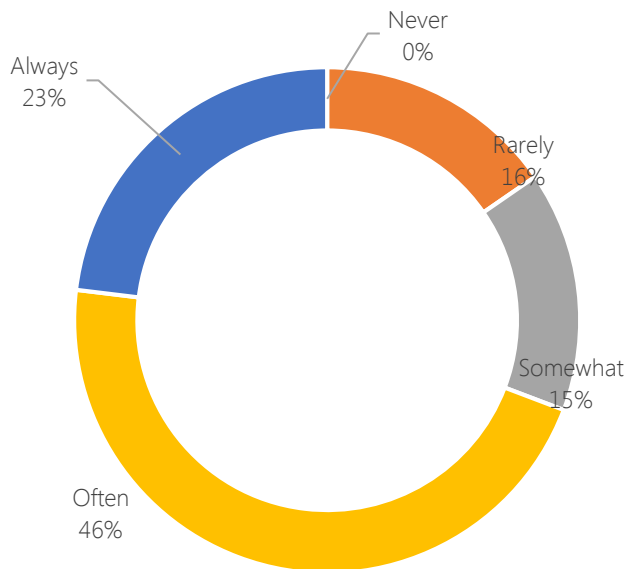
Q8. To what extent do you look at bonds from a European only perspective?

Our view: This is consistent for a group of London-based managers.



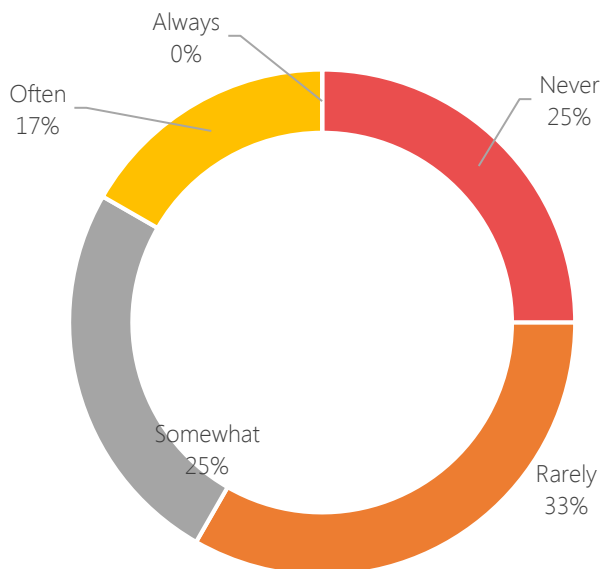
Q9. To what extent do you look at bonds from a Global perspective?

Our view: This approach is consistent for global mandates.



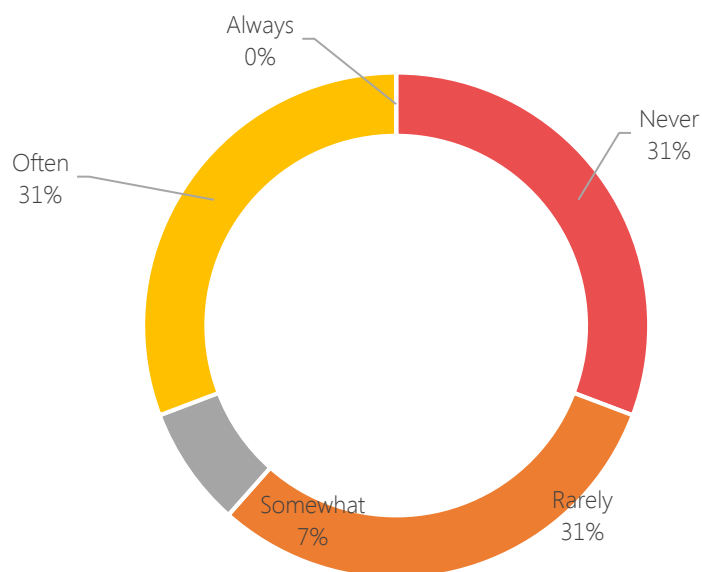
Q10. To what extent do you access a bond exposure using direct securities?

Our view: interestingly over one third of respondents always or often use a direct approach to bond investing.



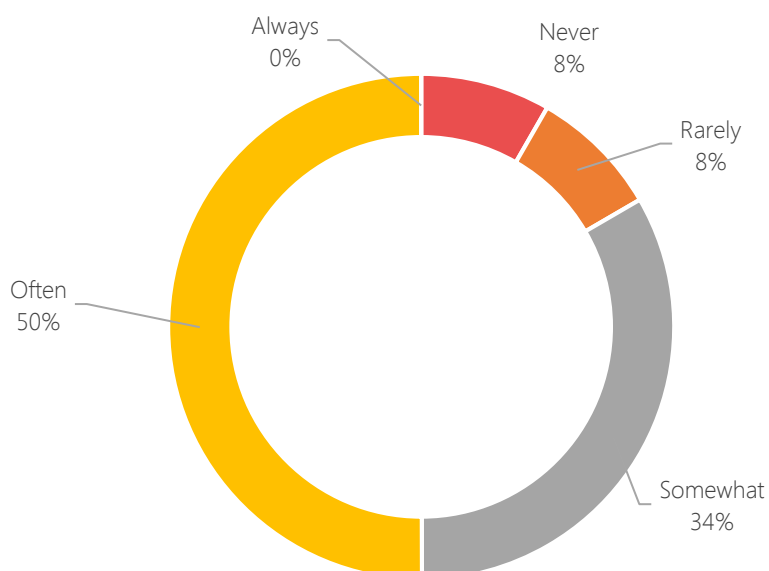
Q11. To what extent do you access a bond exposure using actively-managed funds?

Our view: Active bond funds are less granular in terms of their objectives than index funds, based on previous response, we expect direct exposure to be the preference at present.

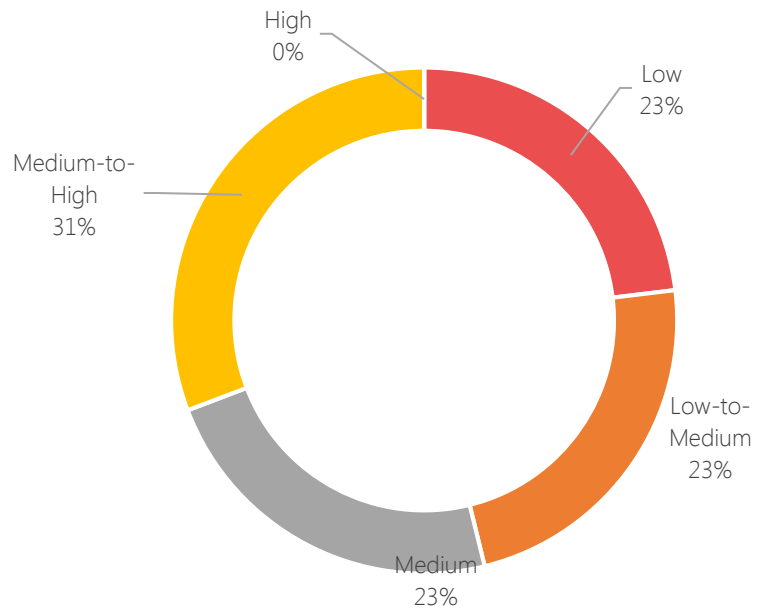


Q12. To what extent do you access a bond exposure using index funds/ETFs?

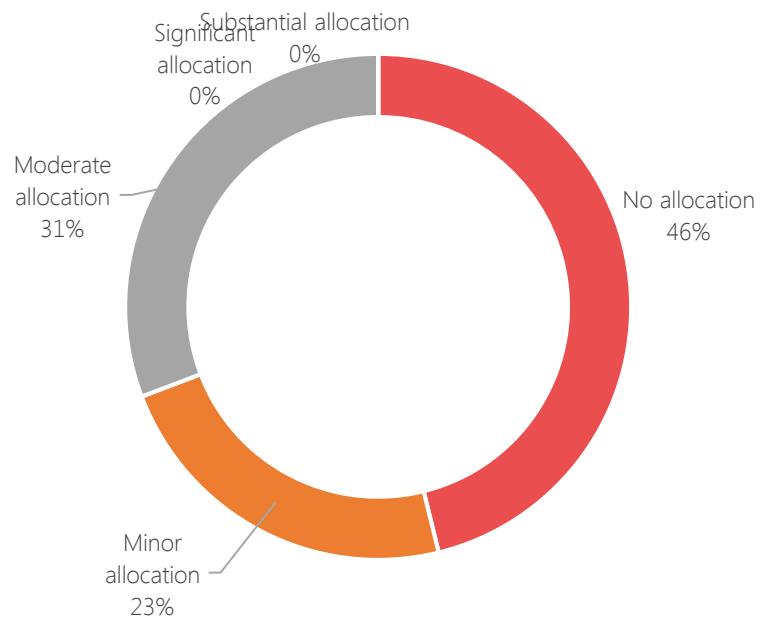
Our view: more targeted approach available from indexing seems to resonate with managers, but usage is lower than potential applications from earlier questions would indicate



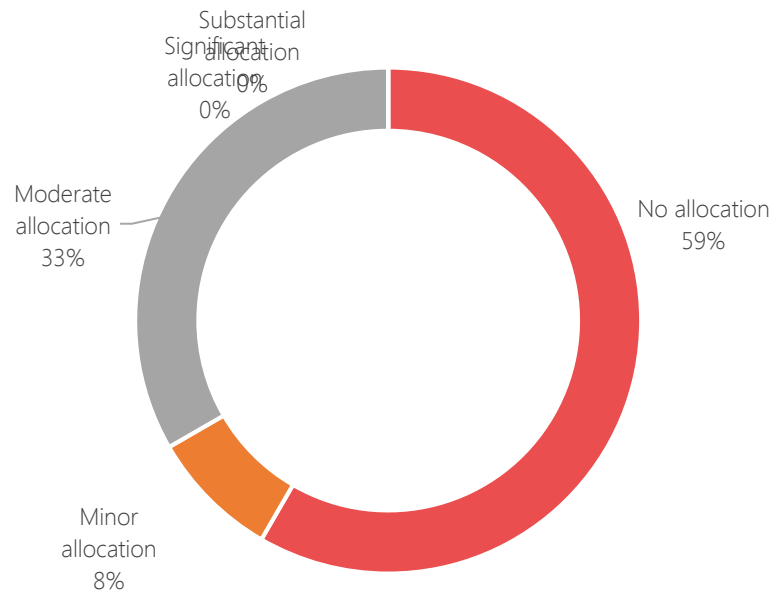
Q13. What is your level of awareness of SPDR's range of bond ETFs?



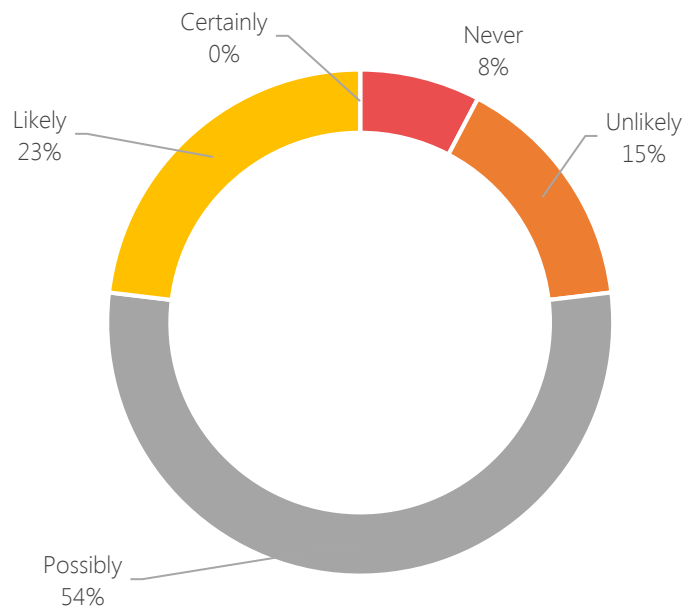
Q14. To what extent have you held SPDR bond ETFs in your portfolio in the past?



Q15 To what extent do you hold SPDR bond ETFs in your portfolio at the present?



Q16 To what extent would you expect to hold SPDR bond ETFs in your portfolio in the future?



Q17. Please describe in your own words the main attractions to using bond ETFs as part of a portfolio?

Our view: Diversification was a key theme in responses, but also the ability to access targeted exposures for lower nominal size than equivalent basket of direct securities, also the lower cost and simplicity of transacting."



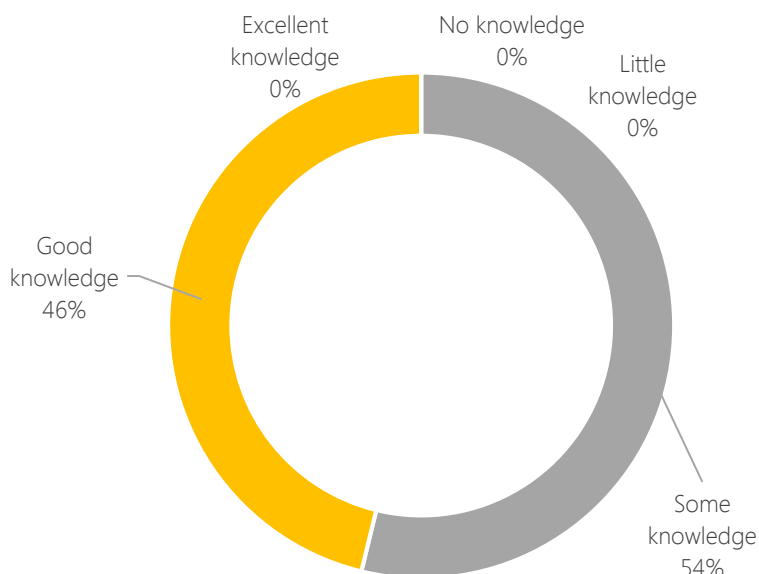
Q18. Please describe in your own words the main concerns of using bond ETFs as part of a portfolio?

Our view: liquidity is a concern if slightly misunderstood. Also there is concern that index construction overweights most indebted issuers. These are the key perceptions that need to be overcome to accelerate adoption.



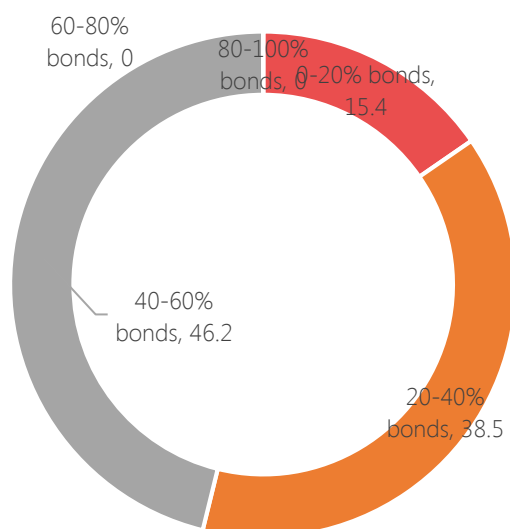
Q19. How would you describe your knowledge of bond ETFs?

Our view: bond ETF are clearly on radar, even if adoption levels are quite low



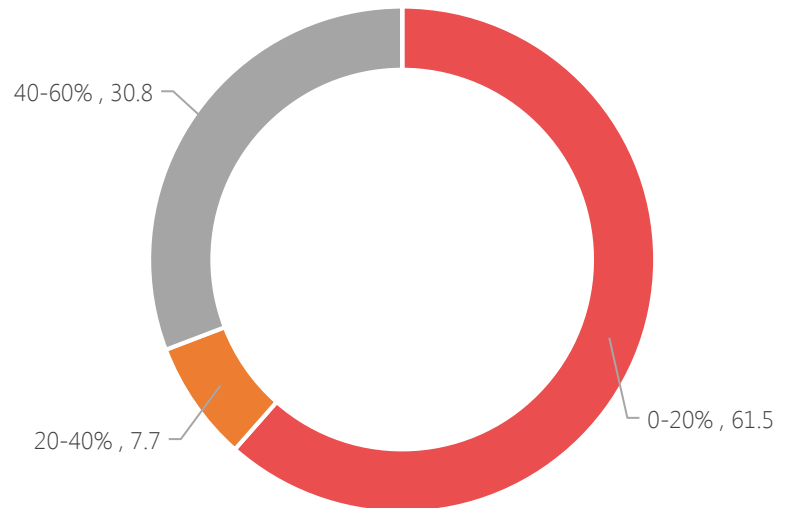
Q20 Of a typical balanced mandate that you manage, what % of the portfolio is invested in bonds?

Our view: we are not surprised with the result that most managers consider a balanced mandate to be 20-60% bond allocation.



Q21. Of a typical balanced mandate that you manage, what % of the portfolio is invested in bond ETFs?

Our view: most managers have low overall exposure to bond ETFs: some 0-20% of a balanced mandate as an implementation vehicle for accessing bond exposure..



NOTICES

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Findings based on online questionnaires completed by 13 London based UK discretionary managers from firms with substantial assets under management during December 2018. The survey is for trends analysis only and does not purport to be statistically significant mass market data.

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